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Housing Developments in Canada

Provisions and Objectives of the Housing Act

THE Dominion Housing Act, 1935, has a twofold purpose: (1) to assist in the improvement of housing conditions, and (2) to assist in the absorption of unemployment by stimulation of the construction and building material industries. The Minister of Finance is empowered to make advances and to pay expenses of adminstering the Act to the extent of $10,000,000. The Act provides for loans for the construction only of new dwellings (including single-family houses, duplexes and apartment houses), the security taken being a first mortgage running jointly to an approved lending institution and to the Dominion Government. In most cases the loans will be made for 80% of the cost of construction of the dwelling or its appraised value, whichever is the smaller. Of this loan the lending institution will advance 60% and the Government 20%. The remaining 20% is to be provided by the borrower.[1] The interest rate paid by the borrower is 5%. This is made possible by the fact that the Government's funds are advanced on an interest basis of 3%. Loans are made for a period of 10 years subject to renewal for another 10 years upon revaluation of the security and on conditions satisfactory to all parties concerned. Interest, principal and taxes are payable in monthly instalments. Amortization of principal is effected at a rate sufficient to pay off the loan in 20 years, but more rapid amortizations may be arranged to suit the convenience of the borrower. The Act requires sound standards of construction and contains other clauses safeguarding the mortgage.

Accomplishments under the Act

The history of the Dominion Housing Act since its inception in 1935 has been one of a gradual growth. Loans made under the Act have been sound loans, made to credit-worthy people. Had the terms of the Act been such as to encourage unsound loans the Act might have had a very rapid growth but it would have been at the expense of sound lending practice.

The Act has now been in operation long enough to permit comparison between operations during the last three months of 1935 and the corresponding period for 1936. The latter period showed an increase of 150% over 1935 and, despite the usual seasonal drop in new residential construction, loans for September totalled almost as much as loans made in April, and December showed a steady gain over September.

An analysis of approved loans to the end of February, 1937 shows that 808 loans were made in the amount of $5,692,842, an average of $7,045 per loan. However, inasmuch as many of these loans were for two-family houses and apartment houses, a total of 1,200 family units were provided for. This shows an average loan per family unit of $4,744. The total volume of residential construction in Canada for 1936 amounted to $42,858,000. Of this volume the Dominion Housing Act was directly responsible for nearly 15%.

In September, 1936 new regulations came into effect to encourage lending institutions to make loans to the prospective house owner of moderate means. The new arrangements concern allocation of losses on loans as between the Government and the lending agencies. According to present provisions, in the case of an 80% loan on a single-family house, the Government will bear 80% of the loss, if the loan amounts to $3,000 or less; 75% on loans between $3,000 and $3,500; and 70% on loans between $3,500 and $4,000.[2] Variations of this

[1] Provision is also made in certain cases for loans of 70 to 75%, where desired by the borrower or deemed advisable by the lending institution.

[2] Original allocation of losses provided that if, at the time the loss occurs, the amount owing under the mortgage is more than the amount advanced by the lending institution, ⅔ of the loss will be borne by the Government, and ⅓ by the lending institution. If, at the time the loss occurs, the amount owing under the mortgage is less than the amount advanced by the lending institution, ⅔ of the loss will be borne by the lending institution and ⅓ by the Government. This original formula continues in effect for loans above $4,000.

formula have been developed for duplexes and apartment houses.

Since these new regulations many loans have been made in the amount of $3,000 and less. Now it can be said without fear of contradiction that the Dominion Housing Act is accomplishing one of the primary purposes for which it was intended, that of assisting the small house owner, particularly the man of moderate means, to own his own home.

If we assume the dividing line between a small or medium low-cost house and the average house to be $5,000, mortgages of $4,000 and below will indicate to what extent the Act is being used to finance the small house. One hundred and ninety-seven loans have been made for amounts of $4,000 or less and, of the remaining loans, we find that 311 family units of less than $4,000 each were provided for. Thus, out of 1,121 total family units, 508 were for low-cost houses and low-cost apartment units.

The Dominion Housing Act has accomplished many things which cannot be shown in figures. It has made the Canadian people "house conscious." It has shown people, particularly those of low income, that it is possible for them to have a well-built, convenient, modern home, structurally sound and of pleasing appearance at a minimum of cost. The Dominion Housing Act Minimum Standards of Construction and Memorandum Specifications have played an important part in educating prospective house owners to the value of sound construction and to the dangers of shoddy construction. These Standards and Specifications, which are being adopted not only for houses built under the Act but for many other houses, have given the prospective home owner confidence that if his house is built accordingly he will have a house free from excessive maintenance and depreciation for years to come.

People who have had unfortunate experiences in the past in house building, experiences which have caused them to regret their venture into home owning, are now willing to undertake home ownership again because of their confidence in the results to be achieved with clear and definite specifications.

Cost Comparisons

The possibilities contained in the Dominion Housing Act for solving the low-cost housing problem have not, as yet, to any great extent been touched. It is true we have a number of loans on houses which might rightly be said to come within the low-cost brackets, houses upon which an 80% loan equals an amount between $2,000 and $2,500, and which the owners are occupying at a cost, covering interest, amortization, taxes and insurance, of between $17.00 and $20.00 per month. This may not be low-cost housing according to exponents of subsidies but it is low-cost housing on an economic basis and a type worthy of encouragement.

Quite recently low-cost housing plans were approved by the Housing Administration for a house which can be built in most parts of Canada at a cost of $2,400. This house contains a living room, kitchen, bathroom, three bedrooms, full basement, central heating system, insulated and exceptionally well constructed.

Under the Dominion Housing Act this house could be built on an average lot for, say, $2,700. An 80% mortgage would amount to $2,160 leaving an equity to be supplied by the owner of $540.00, and the monthly cost to pay interest and repay the loan in 20 years would amount to $14.12. Surely, this can be said to be getting near to the ultimate in low-cost housing in Canada where building costs are comparatively high for many reasons, of which our climate is not the least.

It is true that the problem of saving the required equity of $540.00 may be insurmountable to many in the low-income group. It may entail great sacrifice by the family, but the family which is not willing to make sacrifices for a home of its own might, perhaps, be better off not to own its own home. Having a home of your own usually is, and always should be, the reward of saving and sacrifice and not a gift from a benevolent government.

Interesting comparisons may be made between the Dominion Housing Act and housing acts of other countries.

Under the Dominion Housing Act a house costing $5,000 against which there is an 80% or $4,000 mortgage requires the owner to have an equity of 20% or $1,000. The monthly payment which includes interest and amortizes the mortgage is $26.15 for 20 years, totalling $6,276.

Under the United States National Housing Act the same house would require the same amount of equity, but the monthly payment would amount to $30.11 for 19 years and 6 months, totalling $7,045.

A house of similar accommodation and size, with similar finish and equipment, if built in England according to the requirements made necessary by our Canadian climate, would cost about the same to build as in Canada but might be purchased for a smaller down payment. If the required equity or down payment is 10%, the monthly payment under the usual building society financing plan would amount to $27.79 for 21 years, totalling $7,005. However, if the equity is 20%, which is comparable to that required under the Dominion Housing Act, the monthly payment would be $24.70 for 21 years, totalling $6,224. This difference indicates that a $4,000 Dominion Housing Act mortgage costs approximately 20c more per month, including interest and principal, than it would cost in England.

The Government Home Improvement Plan

To supplement the operations carried on under the Dominion Housing Act, the Government announced in September, 1936, the inauguration of a Home Improvement Plan. This plan provides for chartered banks and certain approved lending institutions to make loans to owners of residential property (including farm buildings) for repairs, alterations and additions (including built-in equipment) to urban and rural dwellings. The loans shall not exceed $2,000 on any single-family house. However, in the case of houses containing more than one family unit, the amount of the loan shall not exceed $1,000, plus $1,000 for every family unit provided. Loans are repayable in equal monthly instalments or in suitable instalments to fit the conditions of the individual borrower.

Loans in the amount of $1,000 or less must be repaid within three years. Loans in excess of $1,000 must be repaid within five years. The maximum charge for loans shall be 3¼% discount for a one-year loan repayable in equal monthly instalments and proportionate rates for other periods. Loans made in accordance with approved conditions will be guaranteed by the Government to the extent of 15% of the aggregate amount of loans made by each approved lending institution. The limit of the aggregate loans is $50,000,000 and the limit of the Government's guarantee is $7,500,000. Up to March 31, 1937 a total of 6,293 loans, amounting to $2,405,350.30, had been made under this plan. The average loan is $382.23.

Attitude of Lending Institutions

The manager of one of the approved lending institutions recently made the statement that "while his company had only made two Dominion Housing Act loans in a month, he was able to trace 26 other house loans to the influence of the Dominion Housing Act." If his experience is typical, it is possible that the Dominion Housing Act was in a large way responsible for a substantial proportion of the volume of house building in Canada during 1936.

Increased and enthusiastic cooperation by approved lending institutions has been noticeable during the past few months. Four new companies have entered into the agreement to become approved lending agencies, one in the West and three in Quebec, and negotiations are now pending with several other lending institutions.

The present approved lending agencies have recently announced their intention of extending their lending facilities to more remote areas. Companies which formerly confined their activities to the head office district are now willing to expand. It is anticipated that in the spring loans will be made in the Northern Ontario and Quebec mining districts. Other companies have signified their intention of considering loans through the Middle West. Recently another eastern lending institution entered the field in British Columbia, and loan applications are now being considered in the Port Arthur and Fort William districts. This indicates better cooperation and confidence in the future of the Act and in the fundamental purposes behind the Act, that of sound lending within the limits of safety.

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